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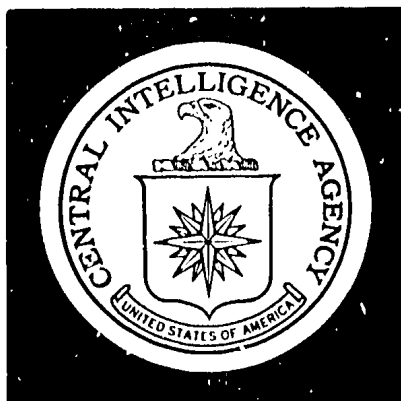
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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

*Cambodian Trade And Economic Aid Relations
With Communist Countries*

~~Secret~~

ER IM 70-42
March 1970

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
March 1970

INTELLIGENCE MEMORANDUM

Cambodian Trade And Economic Aid Relations
With Communist Countries

Introduction

The recent efforts of Cambodia to remove Communist forces from its territory, coupled with the toppling of the Sihanouk regime, raise questions about the future of Cambodian trade and aid relations with the Communist countries. The Cambodian government already has announced the suspension of trade with the Provisional Revolutionary Government of South Vietnam. This memorandum examines the character of Cambodian trade and economic aid relations with the Communist countries in terms of Cambodia's economic dependence and assesses the potential impact on Cambodia should a break in those relations take place.

Trade*Exports

1. Exports to Communist countries, predominantly rice and other agricultural commodities, in 1967 amounted to \$12.6 million, or about 15% of total Cambodian exports. This share rose to around 20% in

* Almost all of Cambodia's foreign trade is handled through the ports of Phnom Penh on the Mekong River and Sihanoukville on the Gulf of Siam. Sihanoukville accounted for the largest share of seaborne trade in 1968 and 1969. Only 29 Communist-flag ships called at Cambodia, all at Sihanoukville, in 1969.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.

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the first nine months of 1968.* Communist China, which alone accounts for more than half of Communist purchases from Cambodia, took about 10% of Cambodia's global exports in 1967 and during January-September 1968. East European countries imported more than 5% of the total, while other Communist countries, including the USSR, accounted for an insignificant share (see Table 1).

Table 1
Cambodian Foreign Trade

	Thousand US \$			
	Exports (f.o.b.)		Imports (c.i.f.)	
	1967	Jan-Sep 1968	1967	Jan-Sep 1968
<i>Total</i>	83,041	66,539	96,142	88,472
Communist countries	12,608	12,969	13,665	7,967
Communist China	6,586	7,299	8,655	4,156
North Vietnam	830	522	1,052	133
North Korea	--	--	--	324
USSR	667	1,238	1,502	831
Eastern Europe	4,525	3,910	2,456	2,523
Czechoslovakia	2,653	1,180	698	710
East Germany	763	1,572	732	1,308
Bulgaria	815	1,124	474	94
Poland	294	--	552	234
Romania	--	34	--	177
Free World countries	70,433	53,570	82,477	80,505
United States	2,160	1,484	3,286	2,765
Other Free World	68,273	52,086	79,191	77,740

* The latest period for which trade data are available.

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2. Rice makes up about 45% of Cambodia's global exports. In 1967, Communist countries purchased \$7.4 million of Cambodian rice -- about one-fifth of its total sales. In the first nine months of 1968 the Communist share increased to one-third of the total, and Communist China alone accounted for almost one-fifth. Eastern Europe and the USSR, together, purchased about 15% of total Cambodian rice sales in both periods.

3. Rubber, which provides roughly 25% of Cambodia's total export earnings each year, has not been an important export to the Communist areas. In 1967 these areas accounted for less than 2% of Cambodia's total exports of rubber. Recent purchases appear to have been at even lower levels.

Imports

4. Imports from Communist countries, which represented about 15% of total Cambodian imports in 1967, declined to around 10% in the first nine months of 1968.* Communist China supplies more than half Cambodia's imports from the Communist world.

5. Communist areas are important suppliers of only three Cambodian import commodities: cotton goods, sugar, and bulk minerals (largely cement). In 1967, Cambodian purchases of cotton yarn and cloth from Communist countries totaled roughly \$3 million, or about two-thirds of its total cotton imports. In 1968 this share declined to just over 50%.

6. China and North Vietnam, together, supplied about one-half of Cambodia's sugar imports, which totaled only \$500,000 in 1967. Bulk minerals accounted for less than \$2 million of 1967 purchases from the Communist world (see Table 2).

7. In October 1969, Cambodia imported 10,000 tons of rice from Communist China and 4,000 tons of rice from North Vietnam, the first such imports since the mid-1950s. An additional 5,000 tons were imported from Communist China in January 1970. Part of these imports were used by the government to deflate domestic

* This memorandum excludes imports of military equipment under Cambodian military aid agreements with Communist and Free World countries.

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Table 2
Major Cambodian Imports
1967

Commodity	Total	Free World	Communist	Communist
				Share of Total (Percent)
Thousand US \$				
Milk products, eggs, and honey	3,023	2,956	67	2
Bulk minerals <u>a/</u>	3,272	1,585	1,687	52
Mineral fuels, oils, waxes, and bituminous ores	9,933	9,687	246	2
Pharmaceuticals	7,040	6,784	256	4
Cotton	4,686	1,592	3,094	66
Iron and steel	10,312	8,662	1,650	16
Boilers, machinery and mechanical appliances	11,157	9,028	2,129	19
Electrical machinery and equipment	7,030	6,293	737	10
Automobiles and other vehicles	7,392	6,911	481	7

a. Sulfur, salt, stone, cement, and lime.

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rice prices, and the remainder was intended for transshipment to Communist forces.*

Cambodian Trade with the PRG

8. According to a one-year trade and payments agreement signed on 25 September 1969 by Cambodia and the Provisional Revolutionary Government (PRG) of South Vietnam, Cambodia is to provide the PRG with up to \$2.4 million worth of products, including in part: rice, gasoline, drugs, and lubricants; secondary products and foodstuffs; and locally manufactured goods. The PRG is to "export" to Cambodia unspecified agricultural and industrial products. Payments were to be made in pounds sterling or in other freely convertible currencies. In March 1970, however, the Cambodian government announced that all trade with the PRG had been suspended.

Economic Aid

9. During 1956-69, Cambodia received Communist economic aid extensions totaling \$134.5 million and, by the end of 1969, had drawn \$90.5 million (see Table 3).

Table 3

Communist Economic Credits and Grants
to Cambodia, Extended and Drawn
1956-69

	Million US \$	
	<u>Extensions</u>	<u>Drawings</u>
<i>Total</i>	134.5	90.5
USSR	24.9	15.7
Eastern Europe	17.3	5.4
Communist China	92.3	69.4

* *Shipping data indicate that the share by volume of total imports from Communist countries declined slightly in 1969 from the level of the previous year, with imports from [footnote continued on p. 6].*

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10. Cambodia already has drawn the entire grant portion of Soviet aid, which included a hospital and medical supplies as well as a technological institute. The USSR has continued to supply material and personnel for the hospital and institute. The hydroelectric power development project at Kamchay Gorge, financed under a \$12.2 million Soviet credit, was originally scheduled for completion by 1970, but no major Soviet assistance has been given for a number of years and the project appears to have been indefinitely postponed. Cambodia has drawn down all the East European aid extended, except for an East German credit of \$11.9 million extended in 1969.

11. All of the economic grants extended by Communist China, totaling \$49.4 million, have been drawn. An estimated \$23 million, mostly commodity assistance, remain to be drawn from a \$42.9 million Chinese credit extended in April 1966. A portion of the credit was utilized to expand the Siem Reap airport as well as to enlarge a paper factory and a textile mill built with earlier Chinese grant aid. In addition, the capacity of the Chakrey Ting cement plant was to be trebled by early 1970.

12. For purposes of comparison, during 1965-68 Cambodian drawings on Free World economic aid totaled \$63.1 million (see Table 4). France and Japan were the largest aid donors, together providing 90% of aid disbursements. Recent extensions include a 1969 agreement with Denmark to loan Cambodia \$4 million for a hotel, highway machinery, and rural electrification. In early 1970, France extended a \$22.7 million loan to Cambodia covering expansion of the Sihanoukville port facilities, including a thermal plant and water supply project, as well as two latex factories, railroad equipment, and several other industrial projects. Phnom Penh currently is negotiating a loan with Belgium for a sugar refinery.

Communist China decreasing substantially, while those from the USSR and North Vietnam increased sharply. By commodity, these data show that Communist countries in 1969 supplied more than one-half of Cambodia's imports of foodstuffs (principally from China and North Vietnam), one-third of cement imports (North Vietnam, North Korea, and the USSR), and virtually all of Cambodia's small volume of coal imports (from China).

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Table 4

Cambodian Drawings
on Free World Economic Credits and Grants
1965-68

	Million US \$
	<u>Drawings ^{a/}</u>
<i>Total</i>	63.1
Australia	1.6
Belgium	0.1
Canada	0.6
France	31.1
Japan	25.5
United States	1.6
West Germany	2.6

a. Some of the drawings are for aid extended prior to 1965. In addition, Cambodian drawings on Yugoslav economic aid totaled \$15 million during 1965-66.

Balance of Payments

13. Cambodia's balance-of-payments position has deteriorated somewhat over the past few years, although gold and foreign exchange reserves are still high by international standards. The annual trade deficit increased from \$13 million in 1967 to an estimated \$27 million in 1968. Reserves were drawn down to \$85 million at the end of 1968, and stood at \$79 million as of October 1969. The halt in rice exports during the latter half of 1969 may have led to a further decline.

14. The repayments burden on Cambodia for Communist aid is insignificant. Cumulative scheduled repayments to the USSR and Eastern Europe do not exceed \$750,000 annually -- less than 1% of Cambodia's annual exports -- and repayments to Communist China are not scheduled to begin until 1976.

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Conclusions

15. Communist countries have accounted for a small but not insignificant share of Cambodia's global economic activity. In recent years, between 15% and 20% of total Cambodian exports have gone to Communist countries, particularly China, and Communist areas have supplied roughly 10% to 15% of Cambodia's imports. The Communist world also has agreed to provide Cambodia with almost \$135 million of economic aid, more than two-thirds of which already has been delivered.

16. The effects of a trade embargo by Communist countries against Cambodia would be neither severe nor long-lasting. A cessation of trade with mainland China, Cambodia's largest Communist trading partner, would cause only short-run dislocations while Cambodia sought other export markets and other sources for its imports. The Cambodians probably would have little difficulty in disposing of the rice, rubber, and other primary products that make up virtually all their exports. The quantities involved are so small that additional Cambodian sales in Free World markets would not be difficult to arrange and would not depress prices. Similarly, Cambodia would have no difficulty in purchasing the commodities, such as cotton, which make up the largest share of its imports from Communist China. Some increased costs, however, might be incurred in a redirection of trade, and the Cambodians might find it difficult to obtain replacement parts for Chinese-made machinery and equipment.

17. Cambodia has not relied heavily on foreign aid, and a suspension of Communist economic aid would not have a serious impact on the Cambodian economy. Moreover, annual deliveries of aid from Free World countries have been substantially greater than those from Communist countries during the past few years, and all but one of the major Communist economic aid projects already have been completed.

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